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THE FEDERAL DIARY

Pension Benefits Watch

By Mike Causey
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This is definitely nail-biting time for federal workers and retirees who are fighting a two-front war on Capitol Hill to protect their pension benefits.

The legislative situation is so confused and fast-changing that it difficult to report about it without sounding like an alarmist.

Proposals to do away with the upcoming cost-of-living adjustment (COLA) for retirees and eliminate the tax-free postretirement period for feds could disappear quickly. But leaders of federal and postal unions and retiree groups are worried that they won't.

Here is a rundown:

■ **January COLAs:** Federal and military retirees, including more than 100,000 in the Washington area, are due raises in their checks next month.

But Senate-House conferees on the debt ceiling bill are considering a Democratic proposal that would suspend that raise until at least March, when Congress would determine whether a raise would be allowed.

In the meantime, retirees would continue to get their annuity checks, but without a raise.

Constance Horner, director of the Office of Personnel Management, warned last week that any decision now to cancel the January raise could cause legal and political problems for the administration, and result in more than 400,000 erroneous payments in January.

Horner told the Office of Management and Budget that, because of technical problems

in issuing correct checks, the government could end up making overpayments to some annuitants and no payments to recent retirees.

■ **Pension tax:** The tax reform bill tentatively approved by the House Ways and Means Committee would eliminate the tax-free postretirement period for federal, state and local government employees.

Under current law, their pensions are not taxed after retirement until they have recovered all their contributions to the retirement fund.

Because they have already paid taxes, their liability doesn't begin until they start drawing pensions based on government contributions. For the average federal retiree that tax-free period lasts about 18 months.

The House bill would subject persons who retire after next July 1 to an immediate tax on a portion of their pensions. But the Ways and Means Committee has inserted language that would exempt members of Congress and some political appointees from the pension tax change.

Reps. Steny Hoyer (D-Md.), Frank Wolf (R-Va.) and Stan Parris (R-Va.) will appear before the House Rules Committee this week asking that federal employees be granted the same postretirement tax exemption that the Ways and Means Committee bill proposes for members of Congress.

That exemption, if approved, would be voted on by the full House as an amendment to the tax reform bill.

The status of the COLAs and the pension tax plans could change again. But, for now, both are very real options.

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